

June 26, 1991

LETTER 1072

THE MARKET: An old Wall Street adage tells us, "The market is always right." Another states, "The trend is your friend." A third warns, "Never fight the tape."

A man asked an ancient Chinese sage for a saying that would fit any and all situations in life. The sage thought for a few minutes and then gave his answer, "This too shall pass away."

Is there an adage that might fit all market situations? Yes there is, and I offer this one -- "It's never easy."

That adage certainly fits today's market. Again and again we've seen the Dow claw its way up to, and then above the 3000 mark, only to fall back under pressure of renewed selling. Once above Dow 3000, the market seems to suffer from aphasia, dizziness at high altitudes.

What's wrong? One problem is that at these levels the market is seriously overvalued. Currently, the Dow is yielding a trifling 3.1% and selling at a fat 19.1 times earnings. Furthermore, stocks always compete with bonds on a yield basis, and over the past few weeks the bellwether Treasury 30-year bond has declined to the point where it yields around 8.5%. Thus the T-bond yield is 2.74 times the yield on the Dow, hardly a friendly ratio for stocks.

Furthermore, the Dow has now suffered a serious loss of upside momentum. But this is a whole other study, and I will go into it in a later Letter. Suffice it to say that as I see it, the market is still carving out a massive complex top, a top that began with the Dow high of 2722.42 registered on August 25, 1987.

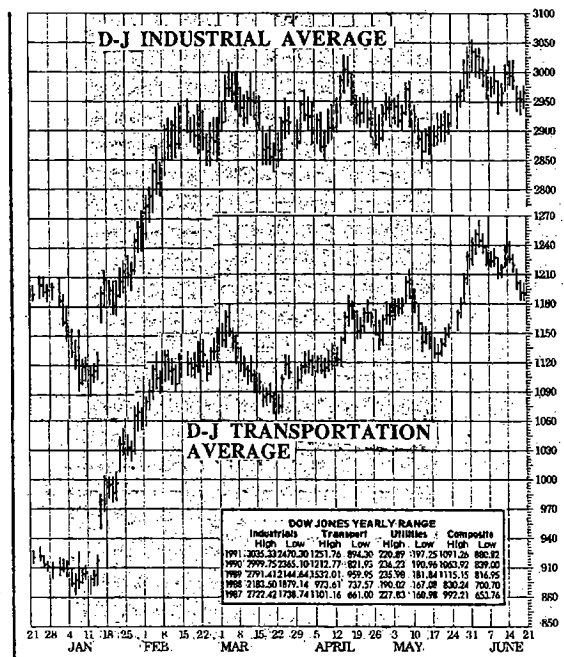
Last week, on June 18, 19 and 20 we saw a strange series of events, a breaking of the psychologically important "even numbers." On June 18, the Japanese Nikkei (more on this later) broke below its 24,000 support level. The next day, on June 19, the Dow fell under its 3000 support level. On the same day the D-J Utility Average gapped down to close below the 200 support level. In doing so, the bellwether Utilities closed at a new low for the year. Then, on June 20, the D-J Transportation Average closed below its own support level of 1200. What are we to think of these performances? Let me put it this way -- I don't see how we can construe them as bullish.

In the last Letter I discussed what happens when the bonds and the utilities move together -- either up or down. In almost all cases, a move by both bonds and utilities is accompanied or followed by a move in the same direction by the rest of the stock market. In recent weeks both the bond and the utility averages have been sliding. This has had the usual negative effect on the stock market.

But there's another important factor -- it's the Japanese market. Japanese money funded a great deal of the speculative madness of the 1980s in the US, and Japanese money is behind many of the most recent buy-outs. I've said this before, but I'll repeat it -- the Japanese stock market has been the world leader on the upside for decades. It could now be the leader on the downside. What happens if the massive decline in the Japanese market continues? Remember, wild, almost insanely high, valuations for land and real estate lie behind the spectacular rise in Tokyo shares. If that speculative edifice crumbles . . .

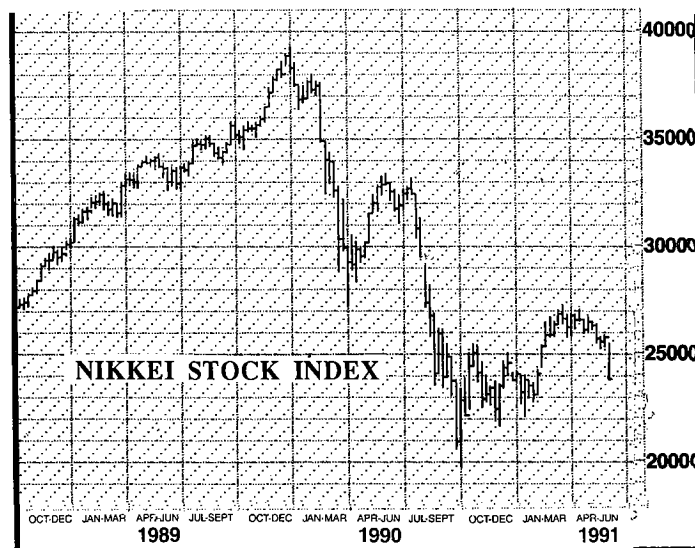
From its high of 39,000 set in December 1989, the Nikkei broke to 20,000 last October. From there the Nikkei rallied to 27,000 in

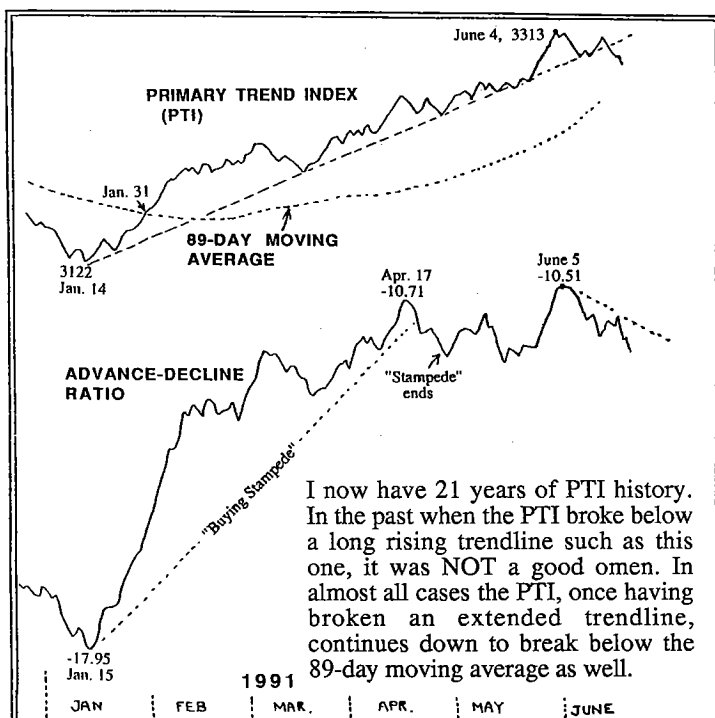
June 14 DJIA 3000.45; PTI 3310; A-D Ratio -11.25
June 21 DJIA 2965.56; PTI 3296; A-D Ratio -11.56
Dow Yield: 3.07%; Dow P/E: 19.7; DowPow: -5
Dow 200-day MA: 2732; Dow 30-day MA: 2954
Dow Book Value: 1276; PTI 89-day MA: 3250
Percentage of Undervalued Blue-chips: 14%



March '91. But last week the Nikkei sank back below 24,000, meaning that the Japanese index (as of last week) had lost a whopping 38.5% of its peak value. This is serious. It represents a massive loss to Japanese investors. But just as serious -- it could indicate an unwinding of Japanese financing. If so, the effects of that unwinding will be felt around the world. Already, I hear talk of Japanese banks pulling in their horns, turning conservative, halting loans.

Back to the US market. In view of all the above, how do we track our market and what do we do about it? Obviously, one way of





tracking the market is via the averages. I believe that 2850 is the critical level for the Dow. It would take a breaking of that level along with a Transportation violation of its March 25 low of 1075.20 to turn the picture decisively bearish from a Dow Theory standpoint.

Another way of tracking the market is through my Primary Trend Index (PTI). I have many subscribers who follow a simple investment technique. They watch the Primary Trend Index (PTI), and they do what it says to do. As I've stated many times before, "It doesn't take an I.Q. of 140 to follow the PTI -- all you have to know is up from down."

But wait -- the PTI only tells us one story. It doesn't tell us what phase the market is in, it doesn't tell us whether the market is overvalued or undervalued, and it doesn't tell us what stocks to buy or how much of any stock to buy or how heavily we should be in the market.

The PTI is interested in only one thing -- the current underlying trend. The PTI turned bullish last January 31, and the PTI has remained bullish ever since. My problem was (and still is) that this market wasn't a bargain (from a value standpoint) then, and it certainly isn't a bargain now. And I like to buy bargains. I find that I haven't the stomach to load up with stocks when the Dow is yielding 3% or even 4%, and when the percentage of undervalued stocks is far out of the bargain zone.

So this Letter is written on two levels. (1) I write the Letter for conservative investors who are value oriented and who take a long view of the market. (2) I write this Letter for people who invest with the current trend, and who are ready to bail out at a moment's notice if the trend (as identified by the PTI) turns down.

As seen on the page 2 chart, the PTI has been walking up a trendline that extends from the January 14 bottom to the present. For months the PTI has been literally bouncing off that trendline, then pushing higher. But on June 18, the trendline was finally violated. June 19 saw the PTI sink still lower under the trendline.

Ordinarily I would insist that the PTI break below its 89-day moving average before labeling it bearish. But because this trendline has been so persistent and accurate in delineating the path of the PTI, I must consider it bearish that the PTI has violated its six-month rising trendline. A confirmation of bearishness will come if the PTI breaks below its 89-day moving average.

There are some other areas that warrant very close watching. The first is the long bond. The yield on the bellwether 30-year T-bond is now dancing around the 8.5% level. The spread between what the American consumer now receives on his short-term money (i.e., T-bills, CDs, etc.) and what he is charged by the banks when he borrows money is currently near the widest in history. That spread, in fact, militates against consumer spending and certainly it works against buying a new car or a second home (much less a first one). More on bonds and other critical items in the section entitled "Charts & Comment."

Dividends: *IQ Trends* of La Jolla in their latest report notes that from 1960 through 1990 total Dow dividends declined (on a year-to-year basis) in only six years. The average decline in those six instances was 4.5%. The worst of those six declines occurred in 1965 (prior to the 1966 recession) when Dow dividends dropped 8.4% from 1964.

Currently the Dow dividend is **93.02**, down from last year's 103.70. Unless there is a big rise in Dow dividends between now and the end of the year, 1991 dividends will be down 10.3% from 1990. This will be the biggest percentage drop in Dow dividends in the last 30 years.

THE PICTURE? What's really happening in the economy? Does anyone have the answer? The torrent of propaganda, guesses, rumors and wishes from the administration, the Fed, the economists, the media, the advisories, is like a bullish consensus-blizzard. Pick up any newspaper, any business magazine, and you're swamped with predictions about a "mild and gradual pick-up to begin around the third quarter." As to whether the recession has bottomed, everybody agrees that the bottom has passed. Alan Greenspan even said so -- out loud to Congress on June 18.

The barrage of "recession over" news has me wondering, but this thought also occurred to me. The media, the newspapers, magazines, TV and radio, have all been hit very hard by this recession (check the price quotes on the newspaper stocks). Media advertising has dropped off drastically, and in most cases circulation is down as are profits. And most painful of all -- jobs have been lost, many good men and women have been handed pink slips. Today every newsman and every TV journalist has to be worrying about his job.

Consequently, there is tremendous pressure on the media to "forecast" an end to this recession, to be up-beat, to be first with any tid-bit of news that suggests that the recession is over. Realizing this, I believe, helps us to understand the torrent of wishful good news that has accompanied the recession almost from the beginning (remember when leading economists predicted that there'd be no recession). All the above, I might add, also applies to the brokerage houses and their "heavy gun" economists and analysts.

With it all, disturbing little news events continue to surface. Six percent of all Western construction and development loans are now delinquent. California real estate has been hit hard, as have many of the California banks. The US savings rate has dropped to a miniscule 3.7%. No sustained pick-up yet in the auto industry. Another five to 10 years will be required before the over-supply in commercial real estate is cleaned up. The nation's 12,246 banks earned 8.8% less in the first quarter of 1991 than in 1990's poor first quarter. Many states, cities and municipalities are running deficits (to the tune of a collective \$50 billion), and the pink slips and firings are just beginning.

So is the recession over? Have we really seen the bottom? Or are we being bamboozled by an administration frantic for re-election, and by a newspaper-magazine-TV complex that is aching for an end to the downturn? The earliest signs will not come from Mr. Greenspan or your favorite economist or the *Washington Post*. The earliest indications -- count on it -- will come from the markets.

INVESTMENT POSITION: The "reluctant bull" is in the box. He's shaking a bit, because he's not all that happy with what he sees. Nevertheless, I'm going along with the story in the Averages, as per the last Letter.



However, the following concept is very important: in a bull market, there will be upside confirmation after upside confirmation, maybe for years on end. But, ultimately, there will be an "upside confirmation" which will be the last one, the final one -- prior to the onset of the next bear market. Let's hope that isn't what we saw in early June -- but I must admit that it has me worried.

The BIG money is made in the market by buying at the great bottoms and then waiting patiently with your wares. All the trading in the world (at least for the average person) isn't going to match the profits garnered with a diversified portfolio that has been bought right -- and by that I mean bought at a major market bottom.

One thing we can be sure of is that this market is not anywhere near a major bottom, not with the broad S&P 500 Average yielding 3.19 and selling at 2.59 times book value.

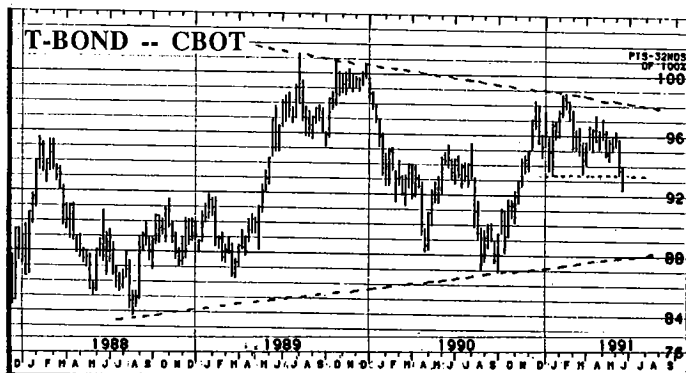
Today, with living standards declining and expenses rising, everyone needs **income**. It seems to me the safest income available at this time is the three-year T-note yielding around 7.40 and free of state and local taxes. If you think interest rates are heading higher, then you should go even shorter -- the 91-day T-bills yielding 5.7%.

As far as stocks, sit tight, which means don't do anything. The values, as I've said so many times before, just aren't there.

Every thinking investor must be asking himself, "If the long bond yields 8.5% today and we're still in the recession (or maybe just coming out of it), what the devil can we expect if the economy turns up?" By the same token investors must ask, "If the wholesale inflation rate (producer price index) is rising at a 7.25% rate now, what can we expect if the economy starts to expand?" Both good questions. I might add that I'm not at all sure that this economy is ready to expand -- but that's another story.

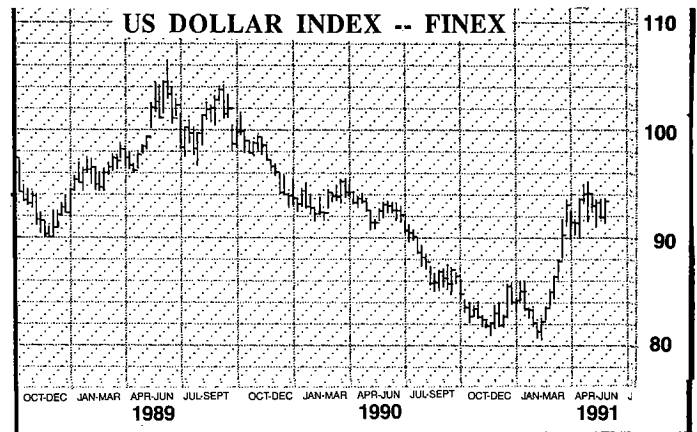
CHARTS & COMMENTS: This chart of the T-bond futures shows the bond in a huge triangle. Most recently, a classic head-and-shoulders top has formed. That top broke down two weeks ago. The question -- will the bond now test the lower trendline at the 88 level? If it does, there's going to be trouble since at 88 the long bond would be yielding above 9%. Long rates above 9% would obviously be too much for an economy trying to climb out of recession (chart courtesy of CRB Futures Chart Service, New York, New York).

The consensus for bonds has been and still is overwhelmingly bullish. In April individuals put a whopping \$6 billion into bond mutual funds, and this torrid pace continued into May. Thus, almost everyone seems to believe that interest rates are heading

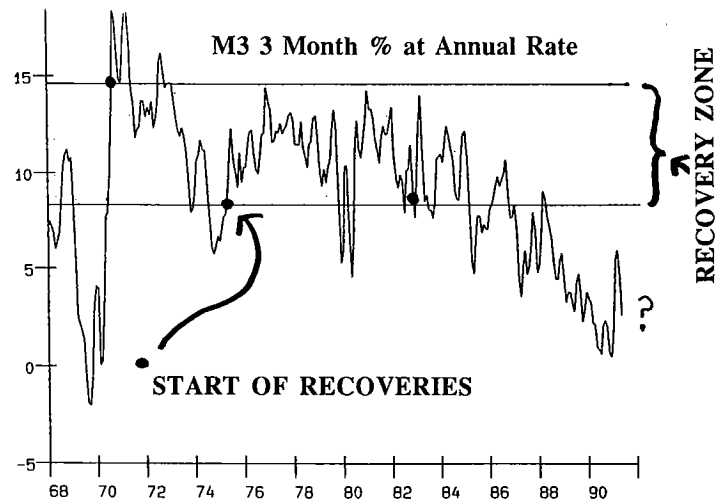


down and that today's rates are a bargain. I'm not one of the believers.

The dollar has rallied strongly ever since last February. Rising US interest rates and hopes for a stronger US economy plus the fact that the dollar is still cheap on a purchasing price parity basis have all gone towards strengthening the dollar. Foreign buyers love to hold securities denominated in a rising currency, since it gives them an extra hedge in that the item is increasing in value in terms of their own currency. But there is another problem. A rising dollar hurts US exports. Will the dollar continue to rally? The dollar is currently very overbought; I think it is going to lapse into a trading range (chart courtesy of *Commodity Price Charts*, Cedar Falls, Iowa).



If the money supply is to expand and if the economy is to turn up, there will have to be some signs of a pick-up in borrowing. One of the places where this will show is in the trend of bank lending and commercial paper issuance. This chart (courtesy of Ed Hyman, *International Strategy and Investment*, New York, New York) tells the story up to now. Says Ed, "Over the past three months Bank Loans + Commercial Paper have declined at a record -10.9% rate." So here we see the growth rate of the broad M-3 money supply going back to 1968. Note that economic recoveries began when the M-3 growth rate moved to or above the 8% level, which Ed has marked the "Recovery Zone." Currently, at 2.6% the growth rate is nowhere near the recovery level. Can the US economy recover with this low rate of M-3 growth? It never has before.



I would not have expected the CRB Commodity Index of 21 commodities (not including gold) to be weak at the beginning of an economic upturn. But face it, the CRB Index is weak. Since the last Letter the CRB broke to its lowest level since last February. Almost all commodities except lumber have been acting poorly.

NOTES & QUOTES: You don't like the US world debtor position? No problem, just change the accounting. And that's what just happened. Under the old method, the US deficit with the world stood at \$663 billion. But under pressure from the administration,

the Commerce Dept. revalued the US' foreign holdings upward, so the new deficit is either \$463 billion or possibly \$281 billion, depending on what new figures you use.

Rumor -- George Bush may not run for a second term. Barbara Bush said she thought the pressure of Desert Storm was the reason for Bush's thyroid trouble. Bush now looks old and tired. The rumor is that Barbara may persuade George that after a lifetime of public service he's had enough, and that his health indicates that he shouldn't run again. Democrats are hopeful that if Bush doesn't run, they have at least a chance of winning the presidency. Democrat in the lead -- Jay Rockefeller.

The Reconstruction Trust Corp. is going to need more money, maybe another \$150 billion or so. According to the General Accounting Office the RTC is out of control, doesn't know what it's doing, and doesn't have an adequate system for keeping track of its holdings. The situation is so bad that the GAO can't even audit the agency. The RTC has a "portfolio" of \$167 billion worth of property to dispose of, everything from mortgages to real estate to paintings to consumer loans. Included in the incredible inventory are 1,300 office buildings, 765 shopping centers, 183 hotels, 28 golf courses, five schools and two churches. Eventually it will have to close down and sell off 1,000 S&Ls. One basic fact is undeniable -- collusion among politicians to understate the disaster of the S&Ls. Why? The pols have been afraid all along to tell the public the size of the bill.

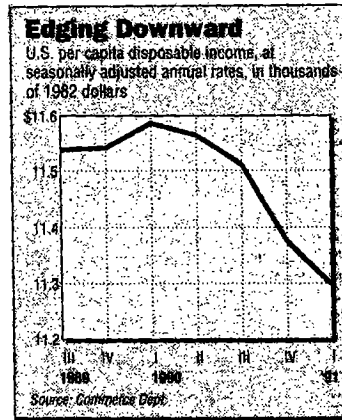
And oh yes, the **FDIC** originally predicted that 340 to 400 banks would fail this year and next. Now it says the count will be on the high side and it will cost the bank deposit insurance fund about \$23 billion extra, roughly 50% more than it estimated. What's happening? Real estate prices are still deflating, putting pressure on the banks. At the same time, the FDIC seems to be having its own trouble and will need a multi-billion dollar infusion of new money, maybe upwards of \$20 billion.

"Big Blue" **IBM** used to be the bellwether of the NYSE. No more, for IBM hit its high of 176 back in 1987 and last week it broke 100. What's happening? Vicious competition is what's happening. William Gates, the genius head of Microsoft (he's our only 35-year old billionaire) predicts that the computer giants of today will end up as dinosaurs due to the global competition. Says Gates, "If you're not a software or a chip company, which at least have intellectual property, what are you? . . . How do you support IBM's huge sales force with that cost structure when the environment is so competitive?" **Russell comment:** The global economic war is here, and the fight for market share is on. That phrase may well be the operative phrase for the 1990s -- MARKET SHARE. Everyone is fighting for it. If you don't believe it, just ask the US auto companies.

In the meantime, in an inter-office memo Gates confides that his "nightmare" has come true, rough competition from IBM, severe competition from industry, and a huge lawsuit from Apple that Apple could win. In the meantime, IBM warns that analysts' earnings forecasts for the company are too optimistic. With the leaders in trouble, one has to wonder whether the whole computer/software complex isn't "hitting the fan."

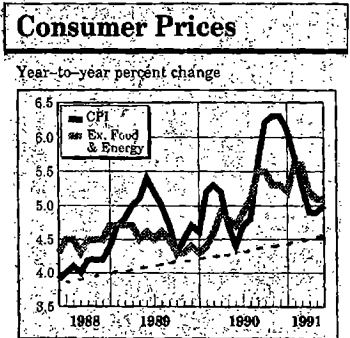
Hey, a father can boast. Betsy Van Patten, my actress daughter, called last week to tell me that she just got a national Bud Light commercial. Then three days later she called to tell me that she got the lead in a new movie ("Delta Heat") to be shot in New Orleans. It's her seventh movie. I'm also proud of my oldest daughter, Daria. She has a two year old boy. I visited her last week (she lives in the gang-ridden downtown San Diego area -- by choice). I was surprised to see two more kids living with her, ages five and 10. Why two more? Their father (black) has "sort of disappeared," and their mother (white) is in and out of jail. So the kids (who used to visit with her) are living with Daria. The additional kids are cute as can be. Daria is one of the new liberated breed -- tough, kind and courageous. Statistic: of the million babies born to teenagers this year, 25% were born to unwed mothers.

Back in the '60s I had two BMW motorcycles. They were great bikes, totally reliable, but kind of ugly. Later I had two BMW cars, a little 2002 (good car) and a 530i (a real pain with constant repairs needed). My wife, Faye, now drives a Mercedes 300E. Great car, has it all, she loves it. BMW is now suffering from its snotty, yuppie "ultimate driving machine" ads, and probably from the fact that Mercedes (and probably Lexus and Infiniti) are better cars. Sales of BMW in the US are down 24% from last year. Sales of its most expensive 7-series are off a huge 49%. BMW blames the latter on the luxury tax. Maybe.



Is our society unraveling? I suspect it is. Economists generally consider the **best measure of living standards** is personal income after taxes (on a per-capita basis) adjusted for inflation. This chart from the **WSJ** tells the story. Furthermore, since the '86 high, adjusted hourly pay has been dropping and it's now 5% below the '86 high. Also, net worth of consumers has been falling since the fall of '89. Thus, despite what the government tells us, the American standard of living continues to decline.

I love charts because charts tend to cut through all the verbal baloney. This one (from **WSJ**) tells the real story of inflation (again, minus government double-talk). Consumer prices rose 5% in the 12 months ending May 1991, and they are still rising on a trend basis, **despite the recession** (undoubtedly to the consternation of Alan Greenspan).



According to Morgan Stanley's "wealth allocation model," the following areas are in a buying range: farm land, US small growth stocks, US technology stocks and cash. Overvalued assets that should be sold are Japanese real estate, baseball cards, trophy hotels and pro sport franchises. **Russell comment:** up to now, the big money that has been in pro sports franchises is made when the franchises are sold. Year after year they seem to command higher prices. But will that last?

Speaking of the big green, pitcher Roger Clemens (Boston Red Sox) starts 35 games a year and pitches about 120 pitches per outing. Next year he will be getting \$5.4 million which comes out to about \$1,286 per pitch . . . Actually, with the huge salaries now being received by many pro sport figures, private ownership of sports franchises may be coming to an end. Costs of running a team are pushing so high that it is probable that in time most teams will be owned by corporations.

George Abott, the famous Broadway producer, is now 104. A few weeks ago he gave a speech, but he had to halt in the middle of the speech because he forgot the rest of it. With that, Abott announced that this was the last speech he was ever going to give, and to thunderous applause he walked off the stage.

I'm going to be giving a speech in San Francisco at the big Investment Seminars Incorporated conference (August 21-25). I hope to stay on the stage the whole time, but then I'm younger than George Abott. The seminar promises to be a winner, and there'll be a great collection of speakers present. Right after San Francisco, we go to Vancouver for the second leg of the seminar (August 25-29). For info, call (813) 955 0323.

Famous Crazy Words: By NYC Mayor David Dinkins last week as a burst of gunfire interrupted a speech he was giving on illegal

guns, "The irony of it. Here I am, giving a speech on gun control and I'm hearing gunshots." Item: in the last six months 470 people in NYC public housing projects have been wounded by guns, while 72 have been killed by guns (or I should say by maniacs pulling the triggers of guns).

Blue jeans, fast food, rock 'n roll, what's the next great American export? It looks like it will be sports. On June 9 in Wembley Stadium more than 60,000 watched the London Monarchs beat the Barcelona Dragons (new World League of American Football). The league drew half a million spectators to games in London, Barcelona and Frankfurt. Basketball is also gaining popularity in Europe . . . The Russians love our brand of football. There are six football teams and 20 clubs in the Soviets. On May 16 the Moscow Bears beat the Minsk Buffaloes 91 to 0, the worst blow out in the one year history of "Amerikanski football." It happened in the Kremlin Bowl.

From the *Donald R. Morris Newsletter* (PO Box 19909, Houston, TX 77224): "It is now apparent Iraq has industriously been killing Kurds and destroying Kurdish towns (some with populations over 100,000) and villages since 1975, with an upsurge in the butchery starting in 1987. Mustard gas and nerve gas attacks were only a preliminary; thousands of men, women and children surviving such attacks were trucked away, butchered and dumped in mass graves. Some 4,000 villages, their populations exterminated, were bull-dozed out of existence. How many uncounted thousands died will never be known. The Kurds had good reason to flee; they have good reason to dread returning. But the critical factor is not that the man who directed this genocide is still in control; the critical factor is that the slaughter had the tacit approval of the bulk of the Iraqi people. They still support Saddam Hussein, they have no guilt over the annexation of Kuwait (or the damage done before departure), they resent our intervention and the (to them gratuitous) damage we did their nation, which they ascribe to jealousy over their nuclear prowess. They have no sense of being defeated, and are not humiliated -- nor do they see their leader as having been humiliated. Where do we go from here?"

Strictly my own opinion: *Entertainment Weekly* and *People* (both published by Time Warner) are both interesting magazines, particularly the former. Furthermore, the movie reviews in both are surprisingly sophisticated, among the best and most reliable around. *Life* magazine (also by Time Warner) is a disappointment. It should be a weekly and it should have great, topical news photos like the old *Life* which was a sensation during the '30s and '40s. One of the most interesting mags today is *M Inc.*, edited by arguably the best editor in the nation, Clay Felker. I judge a mag by how many articles in any given issue I want to read. When Felker edits, I usually read from cover to cover.

The magazine and newspaper industries are still suffering from the shrinkage in advertising. The newspapers are also fighting the non-reading habits of younger Americans. I continue to think that the *Economist* is the single most informative magazine -- I don't know how they do it. I like *US New & World Report* more and more. Of the women's mags I like *Mirabella* and *New York Woman*. Most of the women's magazines are looking so much like either *Elle* or *Vanity Fair* that it's hard to tell one from the other.

Blockbuster Entertainment, which was priced under 1 in 1986, rose to over 15 in 1991 (after three 2-for-1 splits), and then dived to 8 3/4. Problem: they are meeting vicious competition from cheaper independent renters of VCRs. But their big problem will come in the future -- when you can call up and get any movie you want at the time you want via pay-per-view. At that time the VCR rental business may be on the ropes.

We just spent a weekend in LA, a city which boasts dozens of huge newspaper/magazine street stands. The stands are open 24 hours and carry hundreds of magazines and dozens of newspapers. For a newspaper/magazine freak like me they're a treat. The number of porno/sleaze magazines is fantastic; I counted 52 different mags at

one stand. No other classification or category could support that many magazines. Face it, porno is a multi-billion dollar business.

Russell opinion: you can't legislate or dictate taste or morality, you can let it express itself or you can try to repress it. But repress it in one area and it pops up in another. As far as I can see, the most repressive societies, the ones that try to dictate morality (China, Russia, S. Africa) have also been perpetrators of major crimes against humanity. Nazi Germany tried to repress "degenerate art" during the '30s and '40s and look what they offered the world.

Food in LA: we ate at Wolfgang Puck's famous Spago restaurant. As usual, the chow was tops. Puck now has four restaurants in LA and one (Postrio) in San Francisco. For my money, Postrio is the best restaurant (not counting the fine Chinese eateries) in SF. I hate to say it, but I've always felt that the restaurants in SF were overrated.

Mirror, mirror, on the wall who is the biggest restaurateur of them all? No, it's not McDonald's, it's Pepsico with 16,000 (count 'em) spots including Kentucky Fried Chicken, Pizza Hut and Taco Bell.

Julia Roberts is now the hottest female star in Hollywood, getting \$7 million for her latest picture. She was praised highly for her work in "Pretty Woman" which I thought was a "little nothing" movie (of course, I thought the same about the big grossing "Ghosts"). Why Julia is so popular escapes me: I don't think she's that pretty nor do I think she's that good an actress. So it's a good thing I'm not a producer. But I am a Mickey Rourke fan, although I thought *Wild Orchid* was one of the worst movies of the year (but I loved Barfly).

President Bush is jogging again -- the word is that he has to -- Sununu took his car.

The US current account deficit is fast disappearing. The main reason is the recession and the slump in imports to the US plus the money received from foreign sources for Desert Storm. But if we get out of the recession imports are bound to pick up. Also, the current very strong dollar will impact on exports. The *Economist* expects next year's current account deficit to widen to \$58 billion and then to \$100 billion in a few years as growth picks up.

I've lived in California since 1961, and would you believe -- I've never been to Disneyland. I think I'm angry at Disney for turning so grossly commercial. I feel as if Disney would sell anything to anyone anywhere if there was a buck in it. Well, maybe that's just capitalism in action.

The hottest item around is a Harley-Davidson motorcycle (I've got two of 'em). While the rest of the cycle industry is in a slump, Harley dealers are about sold out, and inventories are the lowest in Harley's long history (even good used Harleys are hard to find and bring premium prices). Harley now has 60% of the US big bike business, even though prices for big bikes run high -- from \$10,000 to \$15,000. Adding to the craze, Europe and Japan love Harleys, where they are a big prestige item. Gad, America is making something the world is hot for.

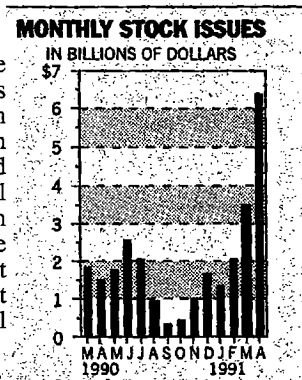
California finally passed a mandatory helmet law for motorcycle riders. They say, "If you ride a bike and haven't got the sense to protect your head, your brains aren't worth saving anyway." Every time I go down to San Diego Harley Davidson I kid the owner: "Hey Doc, when are you going to lay in a stock of helmets?" He scowls, "Harley is synonymous with hair blowing in the wind" -- until there's an accident and then it's crushed skulls and brain-dead former riders. There are 850,000 licensed motorcycle riders in California and the new law goes into effect Jan. 1. Helmet manufacturers are going to have a picnic here for a while. I've been riding bikes since the mid-'40s and only needed a helmet once. But that once saved my life.

I heard a famous basketball coach say that all the hard work in the world won't guarantee that you'll win a game. But without the hard work, a team hasn't got a ghost of a chance of winning a game . . .

I feel the same way about technical analysis and some of the market systems I follow. The best technical system I've ever run across will not guarantee that I'll make money in the market. Nevertheless, I wouldn't stop following any of my technical studies. Without them I'd be lost.

Auctions: In Geneva recently, "the Art of Brequet" watch was auctioned off for \$1.1 million, highest price ever paid for a timepiece. At the same auction a clock owned by Napoleon brought a price of \$577,000, and another Brequet watch sold for \$882,658. Brequet, an 18th century watchmaker, is considered the father of modern watchmaking.

Bernard Baruch was asked how he made his millions. He said, "I always gave the public what it wanted. When the public wanted stock, I gave them my stock. When the public wanted out, I took the stock back." Wall Street is also willing to oblige. When the market got hot this year and the public wanted new issues, Wall Street came up with new issues. This chart shows what happened through April of this year.



LATE COMMENTS: Everybody wants money -- the busted Russians, the wildly-spending US government, the cash-low Federal Deposit Insurance Corp., the cash-devouring Resolution Trust Corp., the shaky banks, the debt-ridden public, the deficit-ridden cities and states. Where's it all coming from? In the end, it's coming out of our pockets, and, by the same token, our living standards.

Last week the CRB Commodities Futures Index slumped, closing at 211, lowest level in five years. Almost all commodities were weak, with broad declines in the grains and meats. Lumber, which has been strong over recent months, slumped along with sugar. At the same time (June 23) it was announced that the US federal deficit for the single month of May rose to a shocking \$53.34 billion, up from \$42.48 billion a year ago. On the same day (despite the recession) the yield on the 30-year T-bond pushed above 8.5% again. And again on the same day Columbia gas omitted its dividend and talked of possible bankruptcy, while mighty IBM's stock milled about below 100. The growth rate of L (liquidity) remained at historic lows (almost no growth), while commercial and industrial loans continued their downward path. Deflation and illiquidity? It sure smells like it.

So I wondered, was there any pattern in all these seemingly unconnected events? One possibility -- debt in all areas is eating this nation up alive. It takes increasing activity (i.e., money velocity, money growth, rising bank loans, rising business sales, consumer sales) to handle debt, to float debt, to service debt. But that's not happening. The activity just isn't there. It's as if a massive but unseen squeeze has enveloped the nation. It's that same squeeze that's holding inflation back. And it's the same debt squeeze that's responsible for pink slips being handed out in industry, in the states, in the counties, in the cities.

As I was writing this I happened to read this letter to the editor from the latest issue of *Barron's*. I include that letter as I think it fits in exactly with what I have written above.

To the Editor:

The "Too Big a Gap?" chart accompanying the article on the Comstock Partners shows total U.S. debt heading for \$15 trillion, while GNP grows much more slowly. However, my calculations show that U.S. government debt alone is now over \$15 trillion. This is the long-range total debt, as of today, that the

American taxpayer is going to have to pay or repay over the years. We at the National Taxpayers Union call it the Taxpayers Liability Index.

We Americans may have defeated global communism, but we no longer practice capitalism. Perhaps, it might better be described as "open-purse economics." We just print some more money or guarantee some more loans, liabilities or obligations. Much of this is done off-

the-books and few Americans realize the full extent of our real national debt. The current figure heading for \$4 trillion is merely the tip of the red-ink iceberg.

We are heading for a fiscal shock, beginning around 1992.

SID TAYLOR
Research Director,
National Taxpayers Union
Washington

Most of the people I read (and believe me, I read a LOT) are either optimistic, mildly optimistic or very mildly pessimistic. Strangely, only one advisor that I know of is openly pessimistic, and this man is talking not recession -- he's talking depression. The man is Adrian Van Eck, well-respected editor of a number of reports on the economy, real estate and the global picture (PO Box 6640, Holliston, Mass 07146). I've zeroed in on Adrian because he has been an optimist and a bull for a long time. But recently Van Eck has turned very bearish (I was shocked, because he has been so bullish and because he been so very accurate on the economy for so long). I draw attention to Adrian Van Eck now, because (God forbid) if we do have a depression, Adrian deserves credit for being the man who saw it coming, for being the man who had the nerve to predict it. In predicting depression, as far as I know, he stands alone (although I do suspect that my old friend, Elliot Janeway, would agree with him).

GOLD: With the collapse in the broad spectrum of commodities, it's remarkable that gold is able to hold above the 350 support level. And I ask myself, what's holding gold up when all the other commodities are fading away? The only thing I can come up with is that as US and world debt rises, the debt-to-gold ratio continues to sky-rocket. When I say the ratio, I am referring to the amount of debt denominated in all paper (fiat) currencies compared with the amount of gold that is held in all hands.

Remember, all the world's debt is denominated in some fiat currency, be it dollars, marks, yen or pesetas. But it's all paper, paper created by governments and paper with absolutely no intrinsic value. Should something happen (such as a global, debt-induced depression) to cast doubt on the real value of that paper, there could be a rush for the only true money, the only money with intrinsic value -- gold.

Interestingly, the demand for gold fabrication rose a whopping 45% in 1990 from 1989, from 52.9 million troy ounces (1989) to 76.5 million ounces in 1990. This is actually less than the predicted 65.7 million ounces of gold that will be produced in 1991, and that may be a factor in the gold equation.

Remember, gold (real money) is a store of value and also a form of insurance. And I continue to emphasize the following concept: I believe the US, debt-ridden as it is, must go either to deflation and recession or to inflation and more debt-creation. The Fed has tried to walk the tightrope between inflation and recession, pushing up interest rates when inflation increases, lowering rates when recession appears. But that game is becoming increasingly more difficult to play, particularly as US federal deficits continue to build and as foreign nations and markets refuse to cooperate.

The stock market has bet that the Fed can do the job simply by lowering short rates and allowing the economy to reliquify and then expand. But the Fed never counted on a yield of 8.5% on the long bond in the midst of recession. In demanding a yield of 8.5% on the long bond, the bond market is saying, "You can't bring the economy out of recession without a new round of inflation."

Thus, more than ever before, it's the markets that are running the US economy. The markets are bigger than the Fed, the Treasury, the Congress and the Presidency combined. And that's something that the politicians have yet to understand.

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